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A quick reference aid on U.S. foreign relations
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US-Brazil Relations July 1989

Background: Brazil borders on all but two South American countries and is the largest, most populous nation in Latin America. Four major groups make up the population: the indigenous Indians; the Portuguese, who began colonizing in the 16th century; Africans, brought to Brazil as slaves; and various European and oriental immigrant groups that have settled in Brazil since the mid-19th century. Its geographic and demographic preeminence, rapidly developing economy, wealth of natural resources, large industrial base, and growing role in world affairs make Brazil of central interest to the US.

Bilateral relations: In 1822 the US was the first country to recognize newly independent Brazil as a nation. Its ties with the US were particularly strong during World War II, when Brazil helped protect Allied shipping lanes in the South Atlantic and its Expeditionary Force undertook an active combat role in Italy. During the 1950s and 1960s, Brazil received nearly $2.4 billion in US economic assistance. In the mid-to-late 1970s, relations with the military government that took power in 1964 were troubled by frictions over human rights and nonproliferation issues. Brazil abrogated bilateral military agreements with the US, and we phased out assistance programs.

Presidents Figueiredo and Reagan exchanged visits in 1982, and relations improved markedly as Brazil began its return to democracy. Although we have few political disagreements with Brazil, disputes arising from Brazil's controversial debt and trade policies have led to significant bilateral strains. Brazil's large debt of more than $100 billion, roughly one-third of which is held by US private or official institutions, is a cause of concern, as are Brazil's restrictive trade practices, particularly in the area of computers and computer-related materials.

Political situation: In 1982, after nearly two decades of military-dominated government, Brazil elected by popular vote a federal Congress, state governors, and other state and municipal officers. On January 15, 1985, the electoral college elected a new civilian president--the popular former governor of Minas Gerais state, Tancredo Neves. In March 1985, on the eve of his inauguration, Neves fell ill and died without taking office. Vice President-elect Jose Sarney became president.

President Sarney, a former member of the ruling military party, did not command the same wide political support that Neves had enjoyed. After an initial political "honeymoon" and a period of increasing popularity, President Sarney's perceived lack of a "legitimate" mandate began to erode his political authority. A series of

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reversals, beginning with the collapse of economic policy, resulted in a loss of confidence in his government. The Congress, which was elected to serve also as a Constituent Assembly, completed the new constitution in October 1988. Direct presidential elections, the first in 29 years, will be held on November 15, 1989.

Economic situation: Its large population (140 million), established economic base, and rich natural resources have made Brazil an important US trading partner and a major destination for US foreign investment.

Brazil is the world's eighth largest market-based economy. Following a period of spectacular economic growth from the mid-1960s to the mid-1970s, Brazil's growth pattern has become more erratic. Various strategies have been tried to deal with the principal macroeconomic problem--an inflation that has approached 1,000% per year and rarely falls into the two-digit range. Wage and price freezes have been tried with short-lived success under the Cruzado, Bresser, and Summer Plans of 1986-89.

Despite Brazil's internal economic problems, it has become a major trading nation over the past several years. From a trade deficit in 1981, Brazil achieved a trade surplus of $19 billion in 1988. It also had a $5 billion bilateral trade surplus with the US. Brazil's exports are no longer limited to traditional agricultural and mineral commodities. Brazilian manufactured goods are becoming a strong presence in the US and other foreign markets. There is concern that Brazil's export success is not matched by measures to open its own markets. Increasingly the US is insisting, through bilateral and multilateral contacts, that Brazil abide by the same rules as other major trading nations.

Brazil's medium- and long-term debt to foreign banks and official creditors is about $115 billion, making Brazil the largest developing country debtor. Brazil declared a moratorium on interest payments to commercial creditors in February 1987. This moratorium ended in late 1988 when Brazil and its commercial bank creditors signed a new debt rescheduling agreement. Brazil also negotiated a rescheduling agreement with its official creditors in 1988. Brazil has called for more concessional terms in all its debt negotiations, but it also recognizes its responsibility to correct its own inadequate domestic economic policies.

Environmental issues: Increasing public and congressional interest has been focused on the preservation of Brazil's Amazon rain forest. In 1989 Brazil announced new measures to protect it. The US is prepared to work with Brazil bilaterally and multilaterally to attack our common concern with worldwide ecological problems.

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